THE CLAN

• PRACTICAL •

ACCOUNTANT™

Beginner's Guide

SIR-TECH

This *Beginner's Guide to Bookkeeping* is a brief description of the accounting principles and practices incorporated in the design of *Clan Practical Accountant*. It explains the terminology used in the program in layman's terms.

If you have not had business training, you will find the Beginner's Guide useful in acquiring a working knowledge of what *CPA* does. You probably will not find it helpful to read if you have an extensive background in accounting.

Professional accountants are respectfully asked not to read this Guide.

Clan Practical Accountant

BEGINNER'S GUIDE
TO
BOOKKEEPING

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A. Introduction: Double-entry bookkeeping.

Clan Practical Accountant is based on double-entry bookkeeping, the preferred system for keeping track of financial transactions. A rigorous professional use of double-entry bookkeeping is extremely complex, requiring intimate knowledge of business practice and the law. But, while it can be used in a complex way, double-entry bookkeeping (to save ink, we'll just call it "bookkeeping" from now on) does not have to be complicated. In fact, it is a remarkably simple system which is as adaptable to home and small-business use as it is to use by governments and giant corporations.

Two principles are at the heart of the system. First, a record should be kept of every sum of money that is received or spent, no matter how small. Second, the total amount of money owned must be equal to the total amount of money owed: the "books must balance." It is the second principle, and the way in which it is implemented, which makes bookkeeping a powerful tool.

Just for a moment, imagine that there are three large boxes in a row on your desk. A pipe leads down from the ceiling to the first box. Let's say the pipe and each box are labeled with a name: we'll call the pipe **"income,"** the first box **"assets,"** the second box **"liabilities,"** and the third box **"expenses."** From time to time things (gumdrops, let's say) drop from the pipe into the first box. When this happens, you write on a piece of paper the **source** of the gumdrops (the pipe), and the **destination** (the first box). You count the gumdrops, and you mark the number of gumdrops next to both the pipe and the first box. Since the other two boxes are empty, you decide to take some of the gumdrops out of the first box and put them into the second and third boxes. As you do this, you write the number of gumdrops you are taking out or putting in next to the name of each box. As time passes, you may decide that the gumdrops are badly distributed; one box may be nearly empty while another is overflowing. Whenever this happens, you move some gumdrops, always recording where you got them from, and where you are putting them. If you stop and add up all the gumdrops that have dropped from the pipe, and all the gumdrops that are in the boxes, you should get the same number (unless, of course, you have eaten some--but you should have written that down, too).

Believe it or not, you are performing double-entry bookkeeping. Each time you record a number of gumdrops under both its source and its destination, you are performing a double entry--the first step in a bookkeeping system.

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While financial bookkeeping is naturally more complicated than our gumdrop picture, the picture is still valid. The difference is, when dealing with money we may have a number of pipes, and each box can have many compartments. There are more sources and destinations to keep track of, but the essential principle of the operation is the same. All we have to do is label each pipe and each compartment as an "**account**," and we can complete the translation from gumdrops to money.

In bookkeeping, each source of money and each destination for money is an account. An account may be a bank account; savings, checking, credit card. It may be a category; a label applied to a purpose for which money is used or a way in which it is obtained. It may be an amount of money which is owed; a mortgage or loan. It may be something of value; property, real estate, personal possessions.

Because there are so many different kinds of accounts possible, it is useful to break them down into four main types according to characteristics they have in common. This greatly simplifies the task of bookkeeping. The four types of account are:

1. Assets.

An asset is anything of value which you own. An asset account should be kept for each sum of money kept in a bank, and for a non-money item which has a book value--an item which has an accepted cash value and which could be sold to obtain that amount of cash. Accounts which represent amounts of readily-available cash, such as money in a bank account, are known as "liquid" assets. Accounts which represent something which isn't readily convertible to cash are known as "fixed" assets. The value of your house or your car or your stamp collection is a fixed asset. Either liquid or fixed asset accounts represent sources of cash.

2. Liabilities.

A liability is an amount of money which you are obligated to pay someone else--a debt. Liability accounts represent such things as loans and mortgages. For reasons which will be explained a little later, your net worth is also treated as a liability account for bookkeeping purposes.

3. Income.

Income is any money or property having cash value which you receive. Wages, salary, fees, commissions, royalties, pensions, gifts and inheritances are income, as are annuities, dividends and other sums received from investments. Income can be broken down into "earned" and "unearned" income, depending on whether or not it is compensation for labor or services. Further breakdowns are possible for tax purposes. Unlike an asset account, an income account does not represent a location of value; it only records how much value enters the asset accounts, and how it enters.

You can visualize an income account as a channel or pipe into the asset accounts.

4. Expense.

An expense is any value or sum of money which leaves your asset accounts. Expense accounts can exist for each category or purpose under which you spend money, ranging from food and car expenses to insurance premiums and interest on loans. Expense accounts may be grouped into related types, and, like income, may be grouped for tax purposes. Also like an income account, an expense account does not represent a place where value can be found. It is a record of money leaving asset accounts in a certain way. An expense account is a channel out of the asset accounts.

In bookkeeping, each account kept for an individual or business is placed into one of these four groupings or types of accounts. (Think of the compartments in the boxes we used in our gumdrop picture).

It is necessary to have a way to keep track of all these accounts. The easiest way to do this is to give each account its own unique name and number, then make a list of the accounts in numerical order. This list is called a "**chart of accounts.**"

Once a chart of accounts exists, it is possible to begin using bookkeeping for its real purpose: to keep track of the movement of money.

Any movement of money always takes place between two accounts. The money is moved from a source account to a destination account, and the movement is known as a "**transaction.**"

In theory, transactions can take place between any two accounts in the chart of accounts. However, some types of transaction make sense only under certain conditions, and others never make sense at all: you wouldn't move an amount from an expense account to an income account, for example--you don't make money writing yourself checks--although value could be moved from an expense account to an asset account, as when you buy a new stamp for your stamp collection or receive a rebate on a purchase.

For the most part, though, transactions will be straightforward, and will be recorded in a straightforward manner. Bookkeeping, particularly as implemented in *CPA*, is meant to simplify record-keeping, not to complicate it. Your income will be placed in one of your asset accounts, such as your checking account, then will be distributed as needed among your liability and expense accounts. When a more complicated type of transaction is needed, it will generally follow reality: if you record the actual movement of the money or value, *CPA* will record the transactions exactly as they happened and preserve them in understandable form.

There are three types of transactions used with *CPA*:

1. Payments
2. Receipts
3. Transfers

A payment transaction is the movement of money out of an asset account. When you make a payment, you lose possession of the amount of the payment.

A receipt transaction is the movement of money into an asset account. A receipt gives you possession of a greater amount of money than you had before.

A transfer moves an amount from one account to another. When a transfer is made, the total amount of your assets usually does not change; all that is changed is the place where you keep or record the transferred money. Actually, there are many cases when a transfer moves value, rather than cash money, between two accounts. If you transfer the principal part of the amount of your house mortgage-payment expense account to your house mortgage liability account at the end of the year, for instance, you are only moving the value of the principal from one account to another; the actual money was moved out of the system as the payments were made. In this case, the transfer represents the way in which value was added to the system as the amount of the liability was decreased, while the asset (house book value) remained the same.

Usually, payments are associated with liquid asset and expense accounts. Money from a liquid asset account, such as a checking account, is used to pay an expense. (Notice that the expense account is simply a list of similar payments, whereas the checking or other liquid asset account groups all kinds of payments, and represents a source of money from which payments can be made). However, real payments can be made from asset accounts to accounts which are not expense accounts. If you make a deposit in your savings account by writing a check, for example, you would record a payment from your checking account to your savings account, even though both accounts are assets.

Receipts normally involve an income account and a liquid asset account. Money from the outside world enters the bookkeeping system through an income account and is placed in an asset account, as when you deposit your salary in your checking account. Income becomes an asset when you receive it.

Transfers may take place either between any two asset accounts, or between any two non-asset accounts, although, as noted above, some kinds of transfers are unlikely. A transfer usually does not change the total amount of your assets, although the money may be, or appear to be, in a different place.

There may be cases when you are not sure what type of transaction you should record. The distinction between a payment and a receipt will be clear enough, but sometimes the choice between a payment and a transfer, or a receipt and a transfer, may not seem so clear. How do you decide?

The most important rule is that you should strive to make your records reflect reality. One useful indicator is the existence of a check. If you write a check, you should record a payment, even if the payment is to another asset account, like your savings account in the last example. Among other things, this will keep your checking account records, particularly in regard to check numbering, accurate and up to date. On the other hand, if you were to withdraw money from your savings account and deposit it in your checking account, you might want to record the change as a transfer: in this case, there is no real check to be recorded and there is no change in the amount of your assets. If the real-world transaction does increase or decrease your assets, then it is probably either a receipt or a payment, respectively.

Sometimes money will move in more complicated ways, and it is necessary to record two or more transactions to describe the movement accurately.

Suppose you have a car which has a book value of $7000 at the beginning of the year, and on which you have a loan with a principal balance of $3500. You make a payment each month of $200 for a total of $2400 at the end of the year. You call the bank and discover that $800 of your total payments was applied to interest, with the remaining $1600 going on the principal. A look in the automotive "blue book" shows you that your car's value has been reduced by depreciation to $6000. Although you have made a single payment each month for the past year, there is obviously more going on here than the records of those twelve payments will show, particularly if you want to claim depreciation and interest payments in your tax return. There are a number of ways in which this can be handled. One of these ways goes like this:

1. **At year's end, transfer $1600 from "car payments" to "car loan."** This leaves $800 in the car payment expense account (which is now really an interest expense account). The car loan liability account is reduced by $1600 and your net worth is therefore increased by $1600.

2. **Move $1000 from "car value," an asset, to "depreciation," an expense.** Net worth is automatically reduced by $1000. Note that there is a real loss of asset value, even though no cash is involved. Depreciation is treated as an expense here because it won't work as any other type of account.

At this point, your records show the reduction of your principal loan balance, the payment of interest, and a $600 total increase in your net worth, as well as the original twelve loan payments. This follows what has really happened, including the increase in value which you hold in your car. Depending on your tax status, depreciation might or might not be an allowable deduction, and the specific way in which transfers are made might vary, but this example illustrates how transactions can be used to record real shifts of value which are not accounted for in day-to-day entries.

It also indicates how much *CPA* can simplify record-keeping: these transactions, which involve transfers of value between five different accounts, including net worth, require only two transaction entries in the program.

Notice that these same changes in value could have been made, for example, by applying car payments directly to the car loan (which in this method would include interest as well as principal) throughout the year, then transferring the interest portion to expenses at year-end. You can choose the method which best fits your own preference, situation and legal requirements: *CPA* allows complete flexibility in tailoring record-keeping to your needs.

Earlier, we mentioned that the double entry method is intended to "balance" the books. Let's take a quick look at how this works.

The four types of accounts make up two each of what could be called "positive" and "negative" types. The positive types, income and assets, represent money which comes into your possession, or which you already have, respectively. The negative types are expenses and liabilities; money which you pay or which you are obligated to pay at a later date. The positive and negative types are natural opposites. The structure of bookkeeping is set up to work with these pairs of opposites. **In a properly set-up and maintained bookkeeping system, income and expense accounts track movements in and out of asset accounts, while the total of all asset accounts is always equal to the total of all liability accounts. When the sum of all asset accounts is equal to the sum of all liability accounts, we say that they are "balanced."**

You may wonder how or why the asset balance should equal the liability balance. Clearly it is possible to add assets without adding liabilities, or to increase liabilities without increasing assets. How can total assets always equal total liabilities if one can grow independently of the other?

The answer is, in bookkeeping, total assets and liabilities are not *allowed* to grow independently of each other.

This is accomplished through a convention. The sum of all your asset and liability accounts is your *"net worth"*--the value of everything you own minus the value of everything you owe; what you would have

left (or owe) **if all your assets were used to pay toward your obligations.** Net worth changes every time an asset or a liability is added or changed. If we establish an account called "net worth," and if it is the right type of account, it will change by the correct amount to automatically compensate for any change in total assets or liabilites, correcting imbalances as they occur.

As we mentioned earlier, **net worth is treated as a liability account for bookkeeping purposes.** This convention forces total assets and total liabilities to be the same: net worth goes up by the amount which assets increase or liabilities decrease, and net worth goes down by the amount which assets decrease or liabilities increase. As long as the amount of each payment, receipt or transfer is added to or subtracted from net worth correctly, and as long as the entries made in each account (source, destination and net worth) are identical, the books must balance. Problems sometimes arise in manual "pencil-and-paper" bookkeeping systems in this regard due to simple clerical error when a human bookkeeper records different amounts for the same transaction, or adds up a column of figures incorrectly.

This type of error is eliminated in *CPA:* the program requires only one entry for each transaction, which remains the same for each affected account, and of course the computer will always add amounts correctly. Naturally, *CPA* cannot tell if each amount you enter is correct, and your balance and net worth figures will be incorrect if you make errors in transaction entry. However, the program does allow you to change any entries which you later discover to be incorrect.

(You may be wondering why net worth should be considered a liability. If your holdings are greater than your obligations, it would seem as if net worth ought to be an asset; certainly we don't ordinarily think of our property and financial resources as liabilities. However, the reason net worth is considered a liability account is simply that when we do so, the numbers come out right. In fact, we can obtain correct results by very simple methods only *if net worth is calculated as a liability.* **"Net worth," as the term is used in bookkeeping, is an abstraction; a "balancing factor" which exists only to offset differences between the totals of the asset and liability accounts. If net worth is positive, it cancels the amount by which assets exceed liabilities. If negative, it cancels a surplus of liabilities over assets.** *This convention exists because it provides a powerful check on the accuracy and correctness of the bookkeeping system. While your net worth figure does give you an instant summary of your overall financial position, that is not its primary purpose in bookkeeping).*

B. Reconciliation.

One of the most important bookkeeping jobs is "reconciliation"-- the comparison of two sets of records in order to detect and correct any

differences between them. Usually records are compared to a statement from a bank or other financial institution. The bank statement shows a list of transaction records; checks, deposits, withdrawals, dividend payments, interest and service charges.

You reconcile your account with the bank statement by comparing each record on the statement to the record of the same transaction in your account, and the balance of your account to the balance reported by the bank. If these all agree, the accounts are reconciled, or "balanced."

If there is a disagreement, the bank statement and your account records are compared to the checks, deposit or withdrawal slips sent by the bank with its statement.

A disagreement can be caused by an incorrect transaction amount, a missing (or extra) transaction record, or by an arithmetic error. Either an incorrect amount or a missing record is easy to detect, simply by comparing checks, deposit- and other slips to the account records. Correction is just as easy.

Arithmetic errors are harder to find. In a manual bookkeeping system, a discrepancy caused by arithmetic error can require hours to locate. Arithmetic errors can result from incorrect addition or subtraction, or from performing addition when subtraction is called for (or vice versa).

With a manual bookkeeping system, arithmetic is performed independently of the system itself. Columns of numbers are added either by hand, or with the aid of an adding machine or electronic calculator. There is a problem with the independence of the arithmetic from the bookkeeping: an error in one does not necessarily show up in the other. The books may be correct while the bookkeeper makes an error in arithmetic.

One great advantage of *CPA* over manual pencil-and-paper systems is that arithmetic operations are integrated with the program's bookkeeping functions. The balance reported by the program will always be correct for the transactions which have been entered. **Therefore, if a difference exists between the program's account balance and the balance for the same account on a bank statement, there must be at least one incorrect, extra or missing entry.**

An entry may be incorrect either because the amount is incorrect, or because the entry is the wrong type (entered as a receipt when it is a payment, for example). If there are no incorrect or missing entries and the accounts balanced during the previous reconciliation, but a disagreement still exists, then there is an error on the bank's part.

Because the most difficult problem to detect--arithmetic error--is eliminated, reconciliation using *CPA* is far easier than with conventional books.

C. Departments.

One important function of a bookkeeping system is combining records from different parts or aspects of an organization, business or household. A business that contains sales, service and parts departments will have records that are unique to each department. A family may have individual accounts as well as joint accounts, individual incomes, perhaps a business together. If a bookkeeping system does not recognize this, then it becomes necessary to create a new system for each part of the financial operations. This is cumbersome and complicated.

CPA allows for the existence of up to eight (8) "departments." Each department can be used to represent the transactions of a particular part of a business operation, or the transactions of a particular member or combination of members of a household. Each department is named and numbered to clearly identify it in reports. Entries can be made under any department as if the other departments did not exist; the program "stamps" each record as belonging to a particular department, and will not confuse it with the records of any other department.

The distribution of transactions among various departments has no effect on the use of accounts. Each department may contain transactions involving any account; the departments "share" accounts. This means that two departments can use the same checking account, for example, and the balance of the checking account will be correctly changed for checks written under either department. You could even use departments to keep your own individual records while using a joint checking account.

Reports may be printed for any individual department, or for any combination of departments.

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BEGINNER'S GUIDE TO BOOKKEEPING
Part 2: Basic Practice

A. The First Steps.

To perform bookkeeping, you must establish accounts, as already described. Each account in your chart of accounts should have a clearly-defined purpose. Before you begin use of *CPA*, you MUST establish at least one account of each type (asset, liability, income and expense). A "dummy" account may be set up in an account type if you have no actual account of that type--a dummy account being a named and numbered account which is not used (it can be renamed or renumbered later, if necessary).

The mere existence of accounts does not completely prepare them for use in *CPA*. The asset and liability accounts in particular may represent funds and value already in your possession or which you already owe. To provide accurate results, *CPA* or any other bookkeeping system must record amounts present at the time you begin using the system.

Once a chart of accounts has been established, your next step is to record any already-existing amounts in the appropriate accounts. You must "open" the accounts.

Opening any asset or liability account consists only of entering the amount of the account balance in both the account to be opened and the Net Worth account. This is handled as a single *CPA* transaction entry for each account to be opened.

Net Worth (*CPA* Account #299) is a liability account. Because of this, it does not behave in quite the way you might expect when opening an account. Liability accounts work "backward." Putting money into them makes them smaller; taking money out makes them larger.

(This apparent paradox is easy to resolve. A liability is a debt. A transfer to a liability account is a payment on the debt, and reduces its size. A transfer from a liability account "borrows" money and increases the size of the debt. It is this rather special property that makes Net Worth work as a liability account. It is not really a liability, but it becomes larger and smaller as it should according to the rules that govern liabilities).

Adding an asset amount increases your total assets, and thus, your net worth. When you open an asset account, therefore, you want both the asset account and the Net Worth account to become larger. So, you record a transfer of value from Net Worth to the asset account. This increases the size of both accounts--the asset because money is added to it, and Net Worth (a "debt") because money is "borrowed" from it.

Adding a liability amount decreases your net worth and increases your total liabilities. The opening of a "true" liability account is recorded by the entry of a transfer from the liability account to the Net Worth account. Money is borrowed from the true liability account, so it gets larger. Money is paid on (or to) the Net Worth "debt," so it gets smaller.

If you don't understand why this works, don't worry. *CPA* is designed so you don't have to understand the mechanics of the process. The methods given here will correctly record the opening balances of your liability and asset accounts, and the Net Worth account will be automatically set to its correct value. Just remember these two rules:

1. **To open an ASSET account, transfer FROM Net Worth TO the asset account.**

2. **To open a LIABILITY account, transfer TO Net Worth FROM the liability account.**

In *CPA*, all opening transactions can be handled as Transfer/Journal entries using the Enter Transactions operating segment available from the Main Menu.* Transactions which open accounts during the current fiscal year should be entered under the actual date on which they occur. However, if the opening balance of an asset or liability account represents activity prior to the current fiscal year, opening transactions should be entered under the date 0/0/YY. (That is, if an account already has a balance at the beginning of the year, enter the balance with a month and day of zero in the current year).

A date containing a day and month of zero signals the program not to include the opening transactions in totals of income or expense for the current fiscal year. The zero date may be entered as the current date upon entry to the program, or you may enter a zero date while entering a transaction.

When loans or mortgages are involved, it is usually necessary to open two accounts; a liability, consisting of the loan or mortgage, and an asset, representing the value of the item purchased with the loan funds. To illustrate this, let's say you have a car with a book value of $10,000 and a balance of $5000 remaining on your car loan. In this case, you would transfer $5000 from the Car Loan account to the Net Worth

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* To avoid unnecessary complication, we do not provide detailed instructions to *CPA* operations here in the *Beginner's Guide*. These instructions may be found in *The CPA Reference Guide* under the topics mentioned here. Please see the *Reference Guide* if you want instructions on any procedure mentioned here. An asterisk (*) indicates a topic which is discussed in detail in the *Reference Guide*.

account, then you would transfer $10,000 from Net Worth to Car Value. This would establish the balance of the Car Loan account at $5000 and the balance of the Car Value account at $10,000. Net Worth would be correctly increased by $5000--the amount by which your car's value exceeds the amount of the loan.

You may wish to begin use of *CPA* sometime after the start of your fiscal year rather than wait until the beginning of the next year. It is quite possible to do this and obtain correct results:

> *--For the program to accurately report the year's activity, it will be necessary for you to enter all transactions which have already occurred in the year. These should be copied from your checkbook or other paper records. Use the Enter Transactions segment of the program. Entries are made under Payments, Receipts or Transfer/Journal as appropriate.*

> *--Income and expense account balances are not carried forward from one fiscal year to the next, so enter transactions under the date they occurred, **not** under a 0/0 date, and enter **only** transactions which have occurred during the current fiscal year.*

There is no special opening procedure for income and expense accounts. Simply record income (deposit) and expense (withdrawal) transactions as they happened for the year to date, as well as any Transfer/Journal entries.

B. Bank Accounts.

Many, if not most of the transactions you will record will involve movements of funds into and out of bank accounts (for our purposes, we can consider money market accounts as bank accounts). Bank accounts should be grouped under Liquid Assets in your chart of accounts, with account numbers in the range 100 to 119. *CPA* can assign check numbers for (and will permit reconciliation of) any account having a number in this range.*

Generally, bank accounts include savings, checking and credit card accounts. Handling of these in *CPA* is straightforward:

> *--Deposits are entered using the Receipts screen in the Enter Transactions segment of the program. Money is moved from another account TO the bank account.*

> *--Withdrawals or checks are entered using the Payments screen in the same segment. Money is paid to another account FROM the bank account.*

Money can be moved from one bank account to another using any of the three types of transaction, although use of the Payments screen is most appropriate when moving money by check.

Savings or checking accounts are liquid assets. Technically, a credit card account is **not** an asset. For the purposes of bookkeeping, however, a credit card account is most easily handled as a liquid asset account, since it does serve as a source of funds.

> *--It can be treated in the same way as a checking account, and will work as a checking account does, except that it will normally have a negative (minus) balance.*

> *--To obtain a negative opening balance, open a credit card account with a payment from the account to Net Worth for the positive amount of the balance.*

Note that cash **is** a liquid asset, and you can keep a record of it as easily as any bank account. Just open a "Cash" account and record your cash transactions in it.

It is useful to establish a subtotal group for bank accounts, using the Chart of Accounts options of the Setup segment in *CPA.**

C. Fixed Assets.

A fixed asset account can be established for anything which has value, but which must be sold (liquidated) to recover its value in cash. Real property and personal possessions are fixed assets for which accounts might be opened. Stocks, bonds and other marketable securities are technically *liquid* assets, but you can open *CPA* fixed-asset accounts to track them, because they will not be reconciled and checks won't be written from them.

Unlike liquid assets, fixed assets normally do not have a set value. Market conditions, inflation, depreciation and other factors can change the cash value of a fixed asset. For this reason, it is often necessary to estimate the value of a fixed asset.

Fixed assets are included in calculations of net worth. Therefore, for your bookkeeping system to provide accurate results, it is necessary for the estimated value of fixed assets to be as realistic as possible. It is a good idea to obtain expert appraisals, at least for valuable items, rather than entering a guess which may be seriously in error.

Related types of fixed asset may be subtotalled in *CPA.** Fixed asset accounts have account numbers which are usually greater than 119 and always less than 200 (in the range 120 to 199). You can give a fixed asset account a number from 100 to 119, but you will probably have no use for *CPA*'s check-numbering and reconciliation facilities.*

D. Liability Accounts.

You should establish a liability account for each mortgage or loan contract which you or your business hold. Liability accounts will be included in your net worth calculations and will record transactions which change the amount of the liabilities.

You may group related liability accounts in your chart of accounts for subtotalling by *CPA*.*

True liability accounts may be opened in *CPA* with any account numbers from 200 to 298. Account Number 299 is reserved for Net Worth.

E. Income Accounts.

For tax purposes, it is a good idea to establish separate accounts for each source of income, particularly if some sources are subject to different regulations or tax rates.

It is common practice to subtotal different types of income (such as earned and unearned), and this can be done automatically in *CPA* reports by establishing subtotal groups in the chart of accounts using the Setup program segment.*

Income accounts in *CPA* carry account numbers ranging from 300 to 399.

F. Expense Accounts.

Most Payment transactions will be made to expense accounts, and expense accounts should be established for each of your common expense categories.

Similar expense accounts can be grouped together in the chart of accounts to simplify setting up subtotal groups. This is particularly useful in the case of tax-related expenses.*

An expense account may be assigned any account number from 400 to 499.*

IMPORTANT NOTE: The account **number** *determines how* **CPA** *handles an account. The ranges given above are NOT optional. An account numbered 348, for example, will be treated as an income incount no matter what it is named. Therefore, if you want an account to behave as you expect, you must give it a number in the proper range.**

G. Transaction Entry.

ALL transactions ALWAYS take place between two accounts. Each movement of money is recorded in a source account and in a destination account.

In *CPA*, **only one entry is made for each transaction.** This entry includes the source and destination accounts. The program records the transaction in such a way that it is included in the totals for both accounts, in true double-entry fashion. Your work is cut in half, but you obtain the same results as you would making two entries on paper.

Transactions are entered in *CPA* under one of your accounts, usually a liquid asset (bank) account. This means that the program provides the name and number of this account automatically, as a "default," when a transaction is entered. This default account will be correctly listed on the entry screen as the account to or from which funds are to be transferred, depending on the type of transaction. Therefore, it is only necessary for you to enter the name or number of the other account involved in the transaction.

If you already have experience or training in bookkeeping, you may be familiar with "**debit**" and "**credit**" terminology, rather than the "**to**" and "**from**" usage normally employed in *CPA*. "To" and "from" are used because they are simpler for many people to understand than "debit" and "credit." If, however, you are more comfortable with credits and debits, you may switch the *CPA* transaction entry screens to display credit and debit terminology rather than "to" and "from."*

H. Refunds and Rebates.

You may occasionally obtain a refund or a rebate on an item you have purchased. Refunds and rebates should be entered in *CPA* to maintain the accuracy of your records.

To record a refund or rebate, simply enter a transaction moving the amount of the refund or rebate from the expense account to which payment was originally made to the liquid asset account where the returned amount is deposited.

This kind of transaction is best handled as a Receipt in a liquid asset account, with the expense account as the source of the funds.

Note that this procedure simply follows reality--you get part or all of an expense back, and return it to your bank account.

Remember: A refund or a rebate returns **your** money to you; **it should NOT be entered as income!**

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